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**BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001**

POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

POSTAL RATE AND FEE CHANGES, 1997

DOCKET NO. R97-1

DIRECT TESTIMONY

OF

DALE A. MULLIN

ON BEHALF OF

PARCEL SHIPPERS ASSOCIATION

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AUTOBIOGRAPHICAL SKETCH

My name is Dale A. Mullin. I am Director, Transportation and Logistics, Avon Products, Inc. I was educated at the University of Kansas where I received a Bachelor of Science Degree; and pursued further studies in transportation and logistics programs at the University of Missouri, Michigan State University and the University of North Florida, from 1975 to 1997. My work experience began with EFD Package Express in Kansas City, Missouri where I was the district manager from 1973 to 1974. I have been employed continuously with Avon Products, Inc. since that time. Most of my work experience has been on the shipper's side of transportation. I have been responsible for all modes of transportation, with my primary emphasis at Avon being in the area of package delivery. More than half of Avon's expenditures for freight are paid to delivery carriers. Avon's annual sales (1996) were \$4.8 billion, of which \$1.7 billion represented U.S. sales. Avon operates in 130 countries. In the United States, Avon annually ships approximately 13 million orders, consisting of 20 million packages weighing 260 million pounds. All of these shipments are delivered to Avon representatives who live in residential areas.

I am submitting this testimony as part of the Parcel Shippers Association presentation in this proceeding so that the Postal Rate Commission will have the benefit of the first-hand experience of a major shipper of parcels, a company that utilizes a variety of transportation companies to ensure timely and efficient delivery of its merchandise to its customers. Much of my testimony today deals with my company's

experience in the use of United Parcel Service as one of the only two available transportation companies that can deliver its merchandise nationwide to the residential customer. I am well aware that United Parcel Service's rates and practices are not directly at issue in this proceeding. On the other hand, I do not believe that the Commission will be able to make informed judgments about the competitive position of the United States Postal Service's parcel post service without an understanding of the way in which it competes in the parcel shipping market, and the basis upon which customers of both United Parcel Service and USPS make their choices. Also, it is my understanding that the Commission has an obligation to weigh the affect of its recommendations upon the competitors of the Postal Service; but most importantly, as the Commission itself has held repeatedly, a prime obligation of the Postal Rate Commission in its rate setting and classification recommendations is the preservation and encouragement of competition in the market place. It is for that reason that I believe the record will be informed by my testimony concerning Avon's experience with United Parcel Service as a very important carrier of its merchandise.

As far as Avon is concerned, and we believe this is true of other major parcel shippers, the business-to-business delivery market and the business-to-residence delivery market are distinct and separate markets, where the competitive factors are equally different. Just as is the case with the expedited delivery market, there are more than two providers of transportation services in the business-to-business market. However, in the home delivery market there are only two choices: United Parcel Service and the USPS parcel post service. We ask the Commission also to bear in

mind that there is no other federal or state regulatory service to question or review the rate and service practices of United Parcel Service. Since USPS parcel post service is the only meaningful competitor to UPS in the residential delivery sector, it should be obvious that UPS could be in a *de facto* monopolistic position. It is therefore more important than ever that the PRC ensure that parcel post rates and classifications that they recommend will enable USPS parcel post service to be an effective competitor in what would otherwise be a monopolistic market for UPS.

United Parcel Service's rate practices over the last six years confirm the fact that they regard competition in the business-to-business market to be serious, causing them to restrain the rate increases they have imposed in that market. Conversely, it is evident that UPS does not take USPS parcel post service as a serious competitor in their residential market because their price increases in that sector have been considerably larger than in the business-to-business sector, and made in utter disregard of parcel post rates and service. In other words, UPS in that market is behaving like the monopolist who can charge what the traffic will bear.

It is important to have in perspective that the competitive landscape has radically changed since the 1970's, when UPS won its final authority completing their inter- and intra-state authority in all fifty (50) states. That intra-state authority in a number of states was granted based on UPS' claimed commitment to providing better service at competitive rates. The success of UPS has eliminated all viable competition except USPS, the former competition consisting primarily of regional package delivery companies.

In 1991 UPS announced its two-tier rate structure, higher residential and lower commercial rates. At that time commercial rates were defined as business-to-business regardless of what the address was. Direct marketers who ship primarily to residential customers were hit with enormous UPS rate increases to that market. Direct selling companies continued under that policy to pay the commercial or business-to-business rates.


In 1995 UPS announced its Remote Delivery policy to apply to 20,000 plus zip codes throughout the country. Under this policy any address that is more than ten (10) minutes from the city limits and one (1) mile off the main road will have delivery service cut back from five (5) days a week to two (2) days a week. And we must report that the two (2) day deliveries are not consistent. Then, in December 1996, UPS announced that beginning last January any residential delivery regardless of the customer type would be assessed the residential rate. This was an enormous blow to companies, such as Avon, in the direct selling industry; the average increase from this changed policy was 80¢ a package.

This is not an insignificant group of businesses. There are some 7.2 million nationwide in the direct selling business, accounting for nearly \$18 billion worth of products and services sold. The pleas of these business persons, who operate every bit as much a commercial operation as any other business but who happen to work out of their homes, fell on deaf ears at UPS. They have been denied commercial rates and daily service in UPS designated "Remote Zip Code" areas. There is no local, state, or federal regulatory body to whom these 7 million businesses can appeal. Their only

hope is that this Rate Commission will recommend rates and policies that will enable the United States Postal Service's parcel post service to become an effective competitor in the home delivery market. Only competition can give meaningful redress to the monopolistic behavior of UPS toward our industry.

CERTIFICATE OF SERVICE

I hereby certify that I have this date served the foregoing upon all participants of record in this proceeding in accordance with Section 12 of the Rules of Practice.



Timothy J. May

December 29, 1997